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APRIL 2011 – Promotion of Access to Finance for Vulnerable Populations: BDO Request for Proposals Will Lead to New Microinsurance Product for Red Juntos Heads of Households

Approximately 80% of Colombia's low income population does not currently have access to financial services, primarily in rural areas. Without access to credit, it is very difficult for landowners to acquire working capital or assets. As a result, they have no option but to rely on informal credit and their own savings. Interest rates paid on informal credits average 275% a year, which limits expansion of agriculture and licit livelihoods in rural areas. In fact, Colombia has lower access to financial services when compared to other medium income countries. Financial coverage (number of formal financial entity branches per 100,000 adults) in medium income countries is 30, while in Colombia it is only 15. Moreover, the amount of loans as a percentage of GDP in Latin America is 36%, while in Colombia it is 28%; in the case of savings, the average in Latin America is 43%, while in Colombia it is only 28%.

In an effort to promote social prosperity for all and reverse the trends described above, the National Development Plan 2010-2014, issued by the National Planning Department (DNP), proposes the expansion of financial services to include the rural and low income population. The USAID Public Policy Program (the Program) supports this government objective by providing technical assistance to the GOC to assist it implement key access to finance reforms. The Program is providing targeted support to help increase the supply of credit, insurance, and payment and transfer mechanisms to vulnerable populations.

In particular, the Program has supported the *Banca de las Oportunidades* (BDO) to promote the development of microinsurance and microsavings products for the *Red Juntos*¹ (Social Protection Network for Overcoming Extreme Poverty) population. Over the past several months, the Program prepared a detailed agenda and work plan with the BDO on key areas of the technical assistance the agency required in order to design and implement instruments to promote micro-savings, micro-insurance, micro-agricultural lending, village banking, home improvement lending and self-help groups, as well as to promote the development of financial products for vulnerable populations and assist in the regulation of new products.

As a part of this support, the Program supported the BDO to design a microinsurance pilot program for *Red Juntos*, in order to expand the reach of financial services to Colombians living in conditions of extreme poverty. More specifically, the Program has provided ongoing assistance to the BDO to design a public tender and call for bids process. Consequently, the BDO opened a Request for Proposals in February¹ and hopes to select one or several financial institutions to roll out the new instrument sometime soon.

As a result of the Program's support, the BDO is better able to promote the inclusion of vulnerable populations within the mainstream economy, thereby expanding access to finance and promoting growth and development.

¹ Please see BDO Request for Proposals No. 41, available here: www.bancadelasoportunidades.gov.co.